



Who makes the miracles happen?

Austin Speed

Cori Cunningham

Esam Hijazi

# Starbucks

Nasdaq: SBUX



TM



# What is Starbucks

- Coffeehouse chain selling a variety of products: coffee, hot espresso-based beverages such as lattes, Frappuccino's, teas, and snacks
- Market Cap: 79.929 Billion
- ~27, 300 stores worldwide
- 2/3 of stores located in the US, 1/3 located internationally
- Average of two new stores opened daily



# Company History

- 1971 – First store is opened at 1912 Park Place in Seattle, Washington.
- 1971-76 – First store only sells roasted coffee beans, no brewed coffee.
- 1988 – Begins offering health insurance to both part time and full time employees.



# Company History

- 1992 – IPO (17\$ per share)
- 1994 – First drive-thru location is opened.
- 1996 – First international store is opened in Japan.
- 1999 – Acquires Tazo Tea for \$8.1 million
- 2007 – Eliminates trans fat and begins universally using 2% milk in all products.



How Does Starbucks make money?



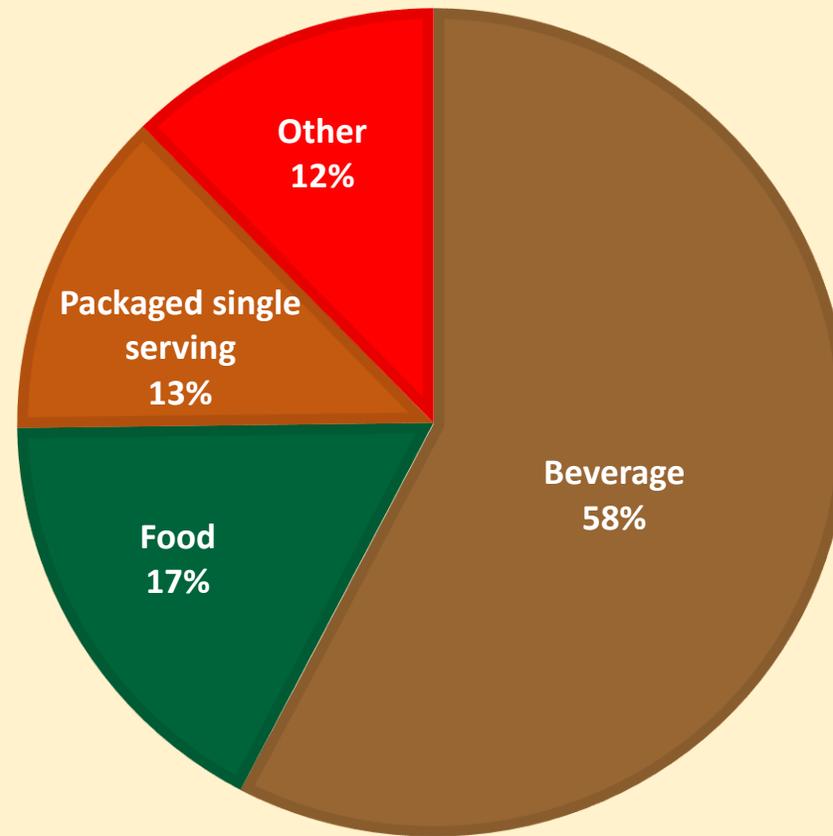
# Starbucks brands and owned companies





# Breakdown of Revenues

Total revenues of \$22,386,800,000



■ Beverage ■ Food ■ Packaged single serving ■ Other



# Operating Segments

- Americas (includes Latin America and Canada)
- China / Asia Pacific
- Europe, Middle East, and Africa
- Channel Development
- All other Segments



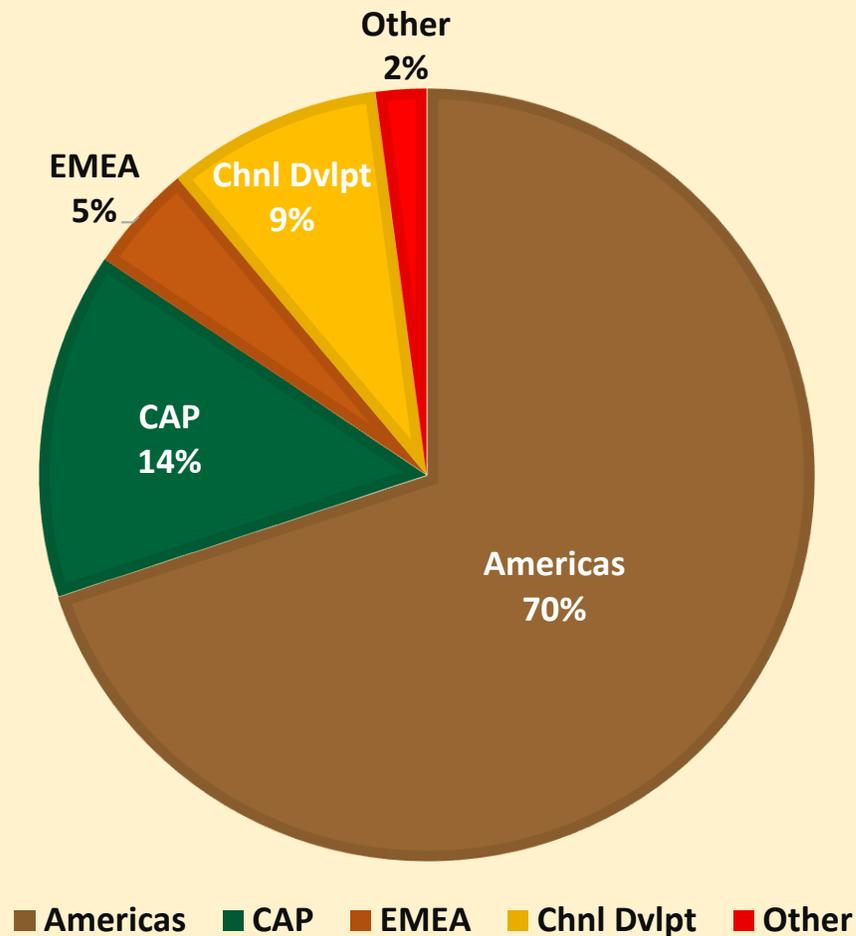
# HUH? Channel Development?

- Roasted whole bean and ground coffee
- Premium Tazo teas
- Starbuck and Tazo single serve products
- Ready to drink beverages
- Other products sold **WORLDWIDE**
  - Sold through grocery and convenience stores



# Revenues by Segment

- Total revenues of \$22,386,800,000



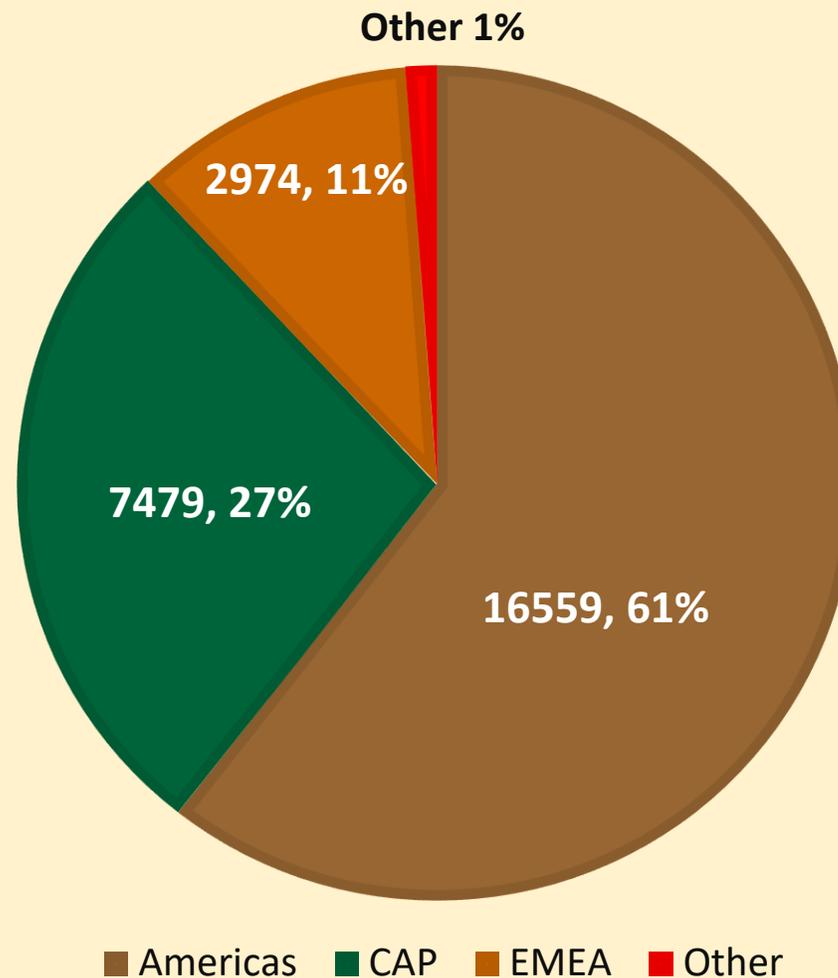


Ok... I get it. But where do they sell it?



# How many Starbucks are there?

- I'm glad you asked.
- Licensed Stores
  - 14,064
- Company Owned
  - 13,275
- Total store Number
  - ~27,300



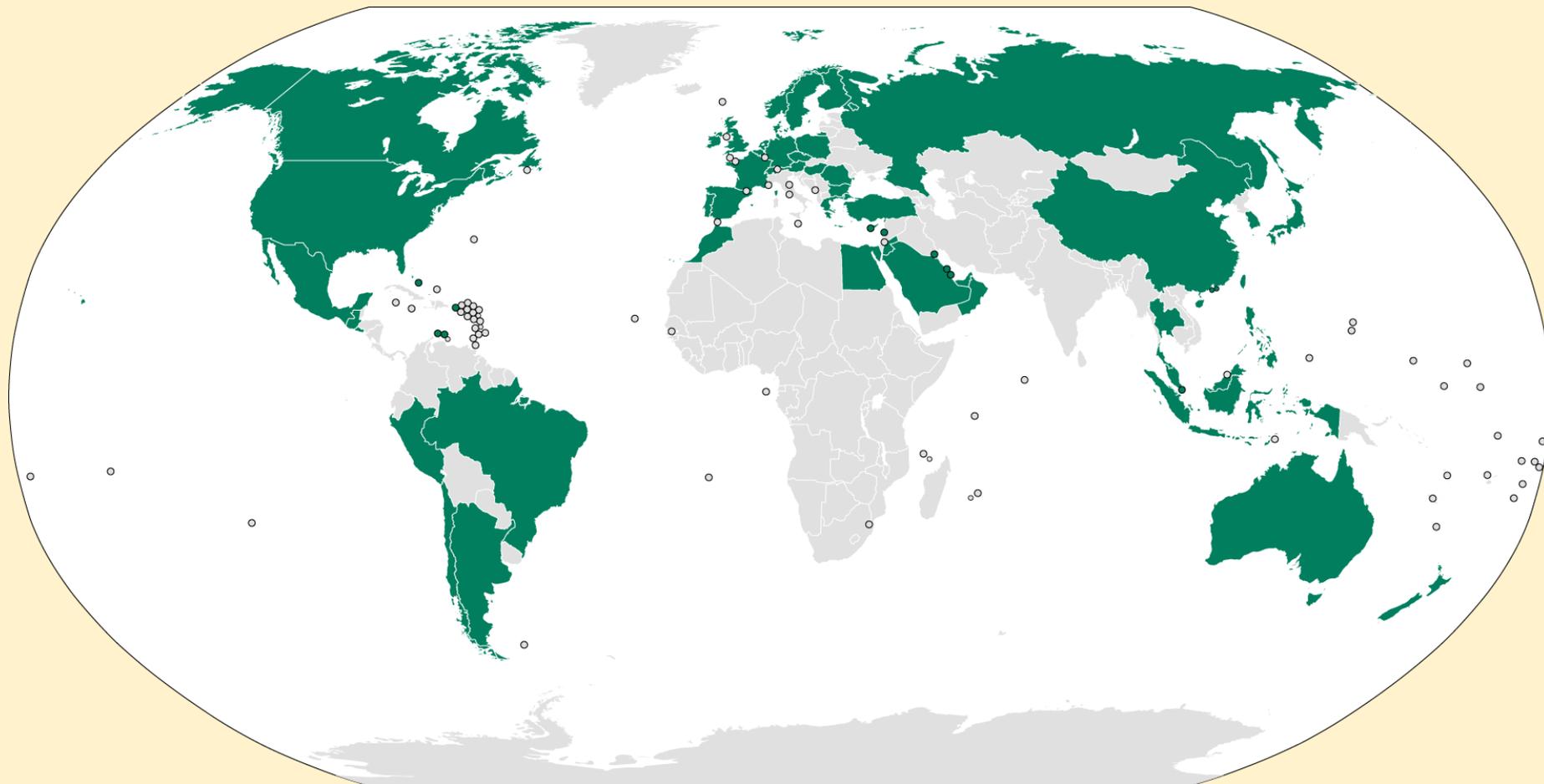


# Store Locations

Locations in over  
80 Countries

Sales Per Store:  
~\$819,000.00

Profit Per Store:  
~\$106,000.00





# Acquisitions

- Invests in Italian Bakery “Princi”
  - Allows for enhanced food offerings
- 2017 – buys The Coffee Equipment Company
  - Allows baristas to make specialty coffee quicker
- 2017 – agreed to buy remainder of Starbucks China
  - \$1.3 billion





# GROWTH

- Plans to have 5,000 stores in china by 2020
- top and bottom-line growth in food platform
  - Food sales growth
  - Acquisition of small bakeries



# GROWTH – Mobile Commerce



- Over 8 million loyalty members
- Over 7 million mobile transactions each week
- Over \$4 billion loaded onto prepaid cards
- Allows customer to order and pay on an app
  - Improves service speed
  - Enhances customer loyalty and experience
  - Streamlines operation





# CEO

- Currently: Kevin Johnson (previously at Microsoft)
- Formerly: Howard Schultz (Resigned April 2017)
- Allows for more innovation





# New Tax Package

- Provides ~ \$350 million
- 2018 non GAAP tax rate of 26%
- 50% - 60% of this will go to the bottom line
  - Increase partner and digital investments by around \$200 million
- 40+% going to wages and benefits



# Tax Package Opportunity

- U.S. is Starbucks biggest market.
- Many companies are raising wages.
- Consumers have more \$ to spend on luxury items.





# Recent News

- 2017 – Q1: sold Tazo Tea for \$384 million
- 2017 – Announced closing of all Teavana stores while still selling Teavana products
  - Consistent underperformance
  - Most stores located in malls



# Risk Factors



# Risk Factors

- Economic Conditions (US, International)
- Specialty Coffee Market highly competitive
- Heavily reliant on American market (70% of revenues)
- Supply Chain Interruptions
- Random Quality Eroding Incidents
  - Ex. Contaminated Food



# Highly Competitive Industry

- McDonald's
- Dunkin Donuts
- Many competitors supply Starbucks
- Locally owned "hipster" places



# Competitive Advantage

- Economies of Scale- Largest Coffee Company in the World
- Intangibles - Brand Name
- Differentiation - Product (Organic/Fair Trade Beans)
- Soft Moat - Customer Experience



# Qualitative Analysis

Criteria	Pass?
Sustained Competitive Advantage?	Yes
Easily Explainable?	Yes
Heavily Unionized?	No
Heavy Capital Infusion?	No
Heavy Research & Development?	No
Can Inventory Become Obsolete?	Yes
Chronic "One-Time" Write Offs?	No
Can Raise Prices To Offset Inflation?	Yes
Will Be Able To Sell More In Future?	Yes
Billion Dollar Competitor?	Yes*



# Interpretation of Financial Statements

IOFS	Thresholds	SBUX (2017)
Gross Profit Margin	> 20%	59.63%
% SGA of GP	< 80%	59.08%
% R&D of GP	< 10%	-
% Depreciation of GP	< 10%	7.99%
Interest % of OP	< 15%	2.25%
Net Profit Margin	> 10%	12.89%
Current Ratio	> 1	1.25
Obligation Ratio	< 5 years	3.1 years

# Interpretation of Financial Statements



IOFS	Thresholds	SBUX (2017)
Debt to Shareholder's Equity	< 0.8	1.64
ROE	> 15%	50.90%
ROC	> 15%	93.30%
Dividend Payout Ratio	< 60%	0.51%
Preferred Stock	None	None
Capital Expenditures of GP	< 25%	11.38%
Net Earning Trend	Up	Up
Retained Earnings Trend	Up	Up



# DuPont Analysis (Historical)

Year	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	Return on Equity (ROE)
2014	12.57%	1.48	2.04	42.41%
2015	14.39%	1.65	2.13	49.73%
2016	13.22%	1.60	2.43	48.16%
2017	12.89%	1.56	2.64	50.90%
YUGE! Tax Cuts	14.27%	1.56	2.64	58.77%



# DuPont Analysis (Competitors)

Company	Net Profit Margin	Total Asset Turnover	Financial Leverage Multiplier	Return on Equity (ROE)
SBUX	12.89%	1.56	2.64	50.90%
MCD	22.75%	0.68	NMF	NMF
DNKN	40.78%	0.22	NMF	NMF
QSR	14.18%	0.22	9.53	29.73%



# Debt Analysis

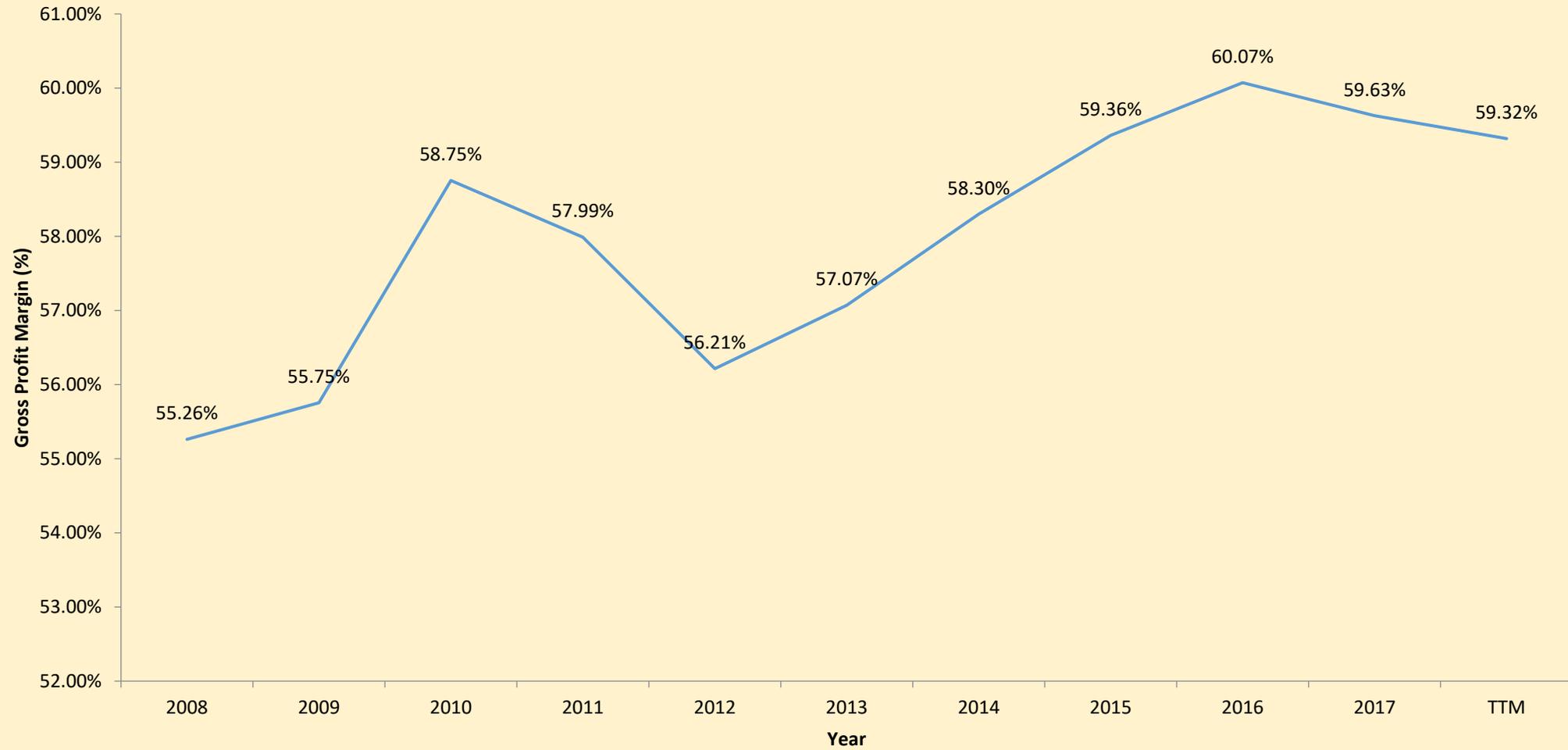


<b>Maturity Date</b>	<b>Debt (in millions of \$)</b>	<b>Interest Rate (%)</b>
<b>2018</b>	\$352	2.00%
<b>2021</b>	\$751	2.10%
<b>2022</b>	\$508	2.70%
<b>2023</b>	\$806	3.85%
<b>2024</b>	\$760	0.372%
<b>2026</b>	\$481	2.45%
<b>2045</b>	\$481	2.45%

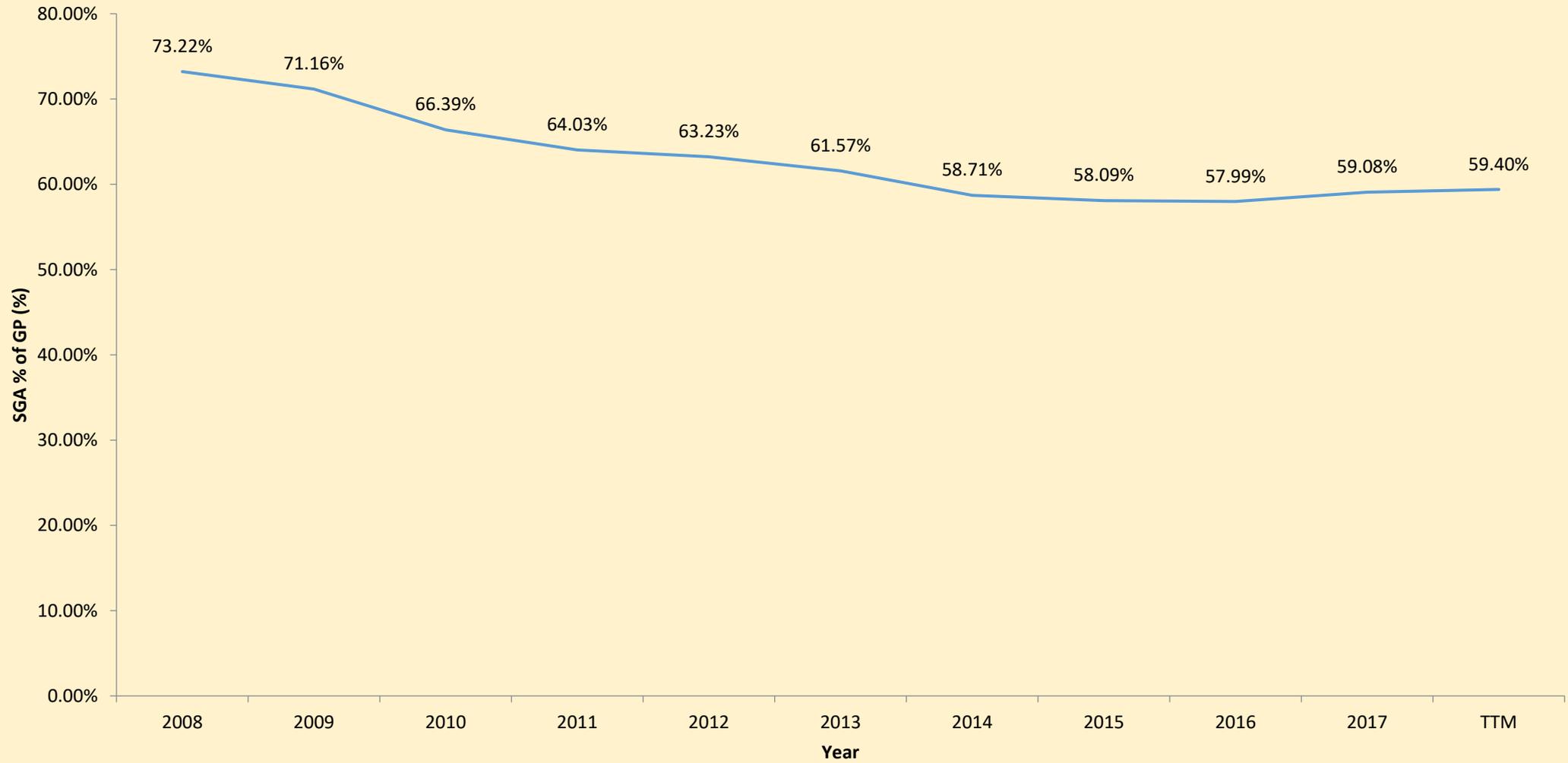


# Statistical Array Analysis

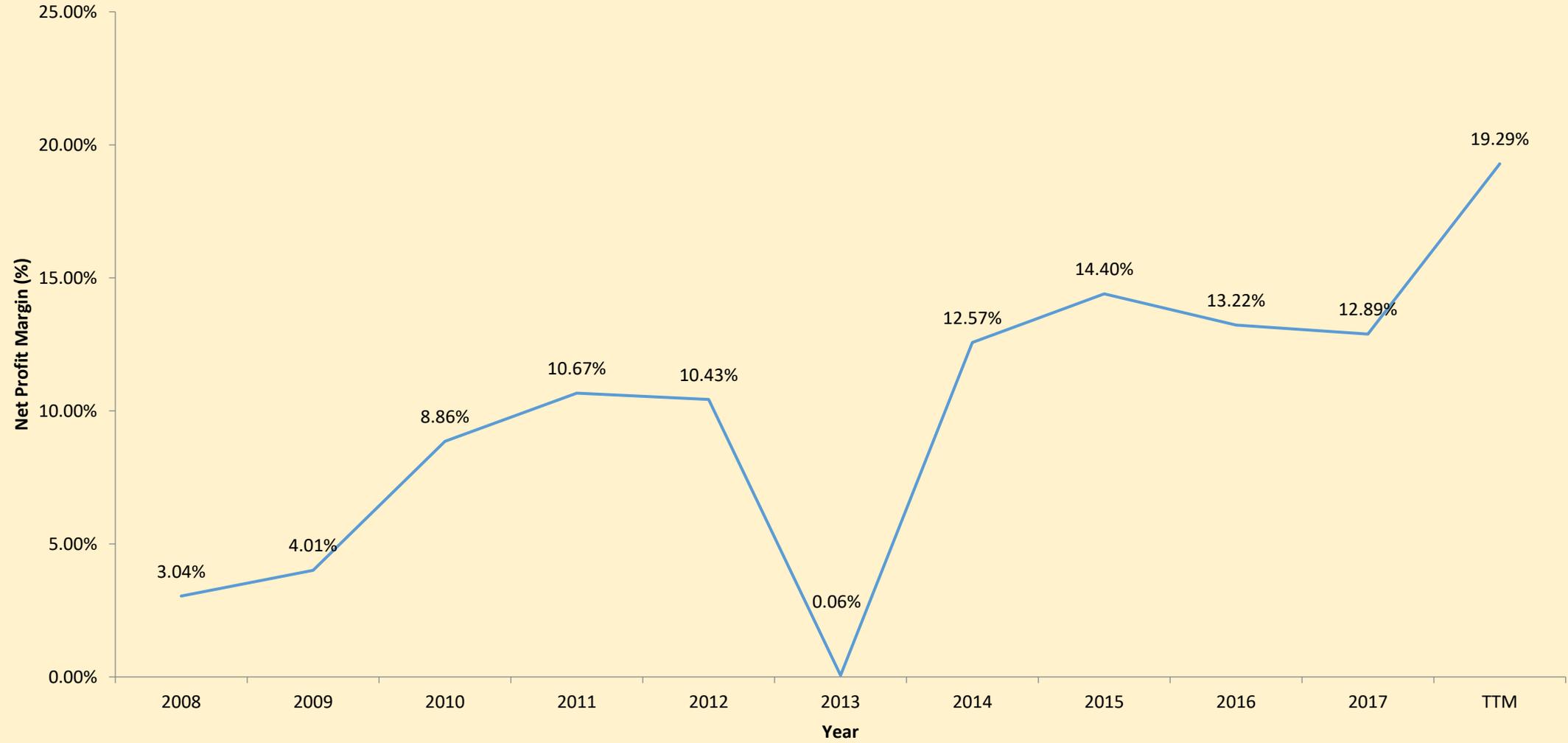
# Gross Profit Margin



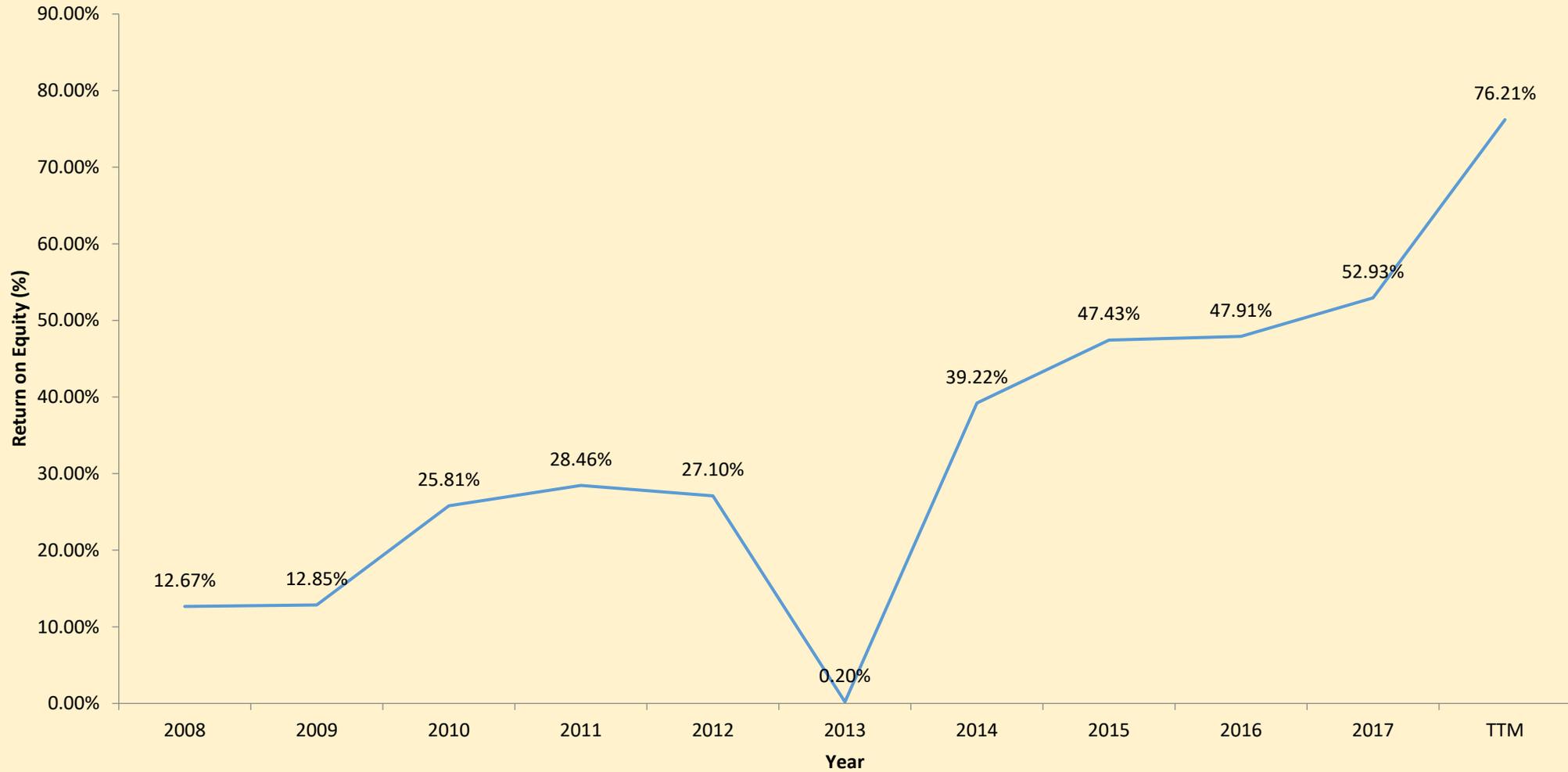
# SGA % of Gross Profit



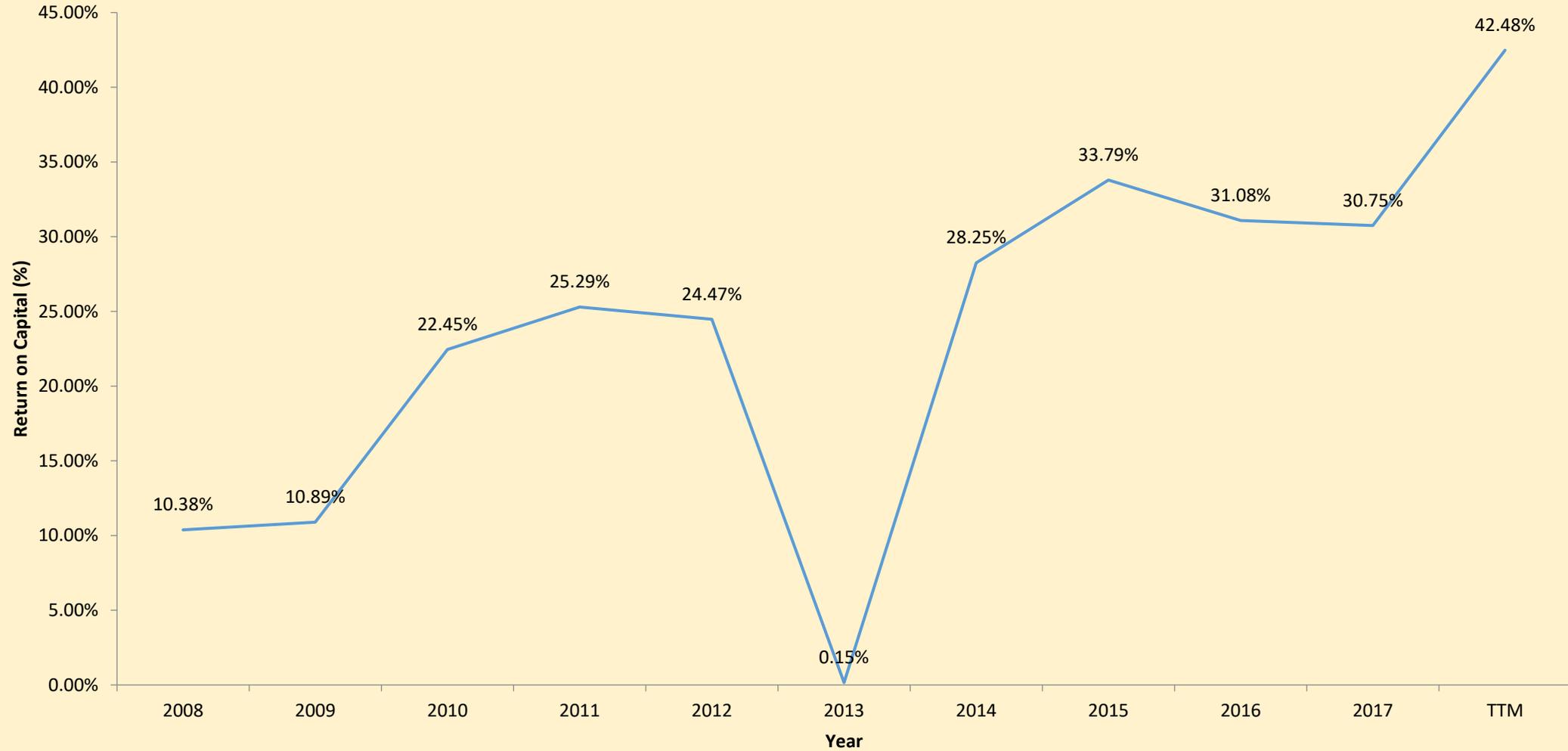
# Net Profit Margin



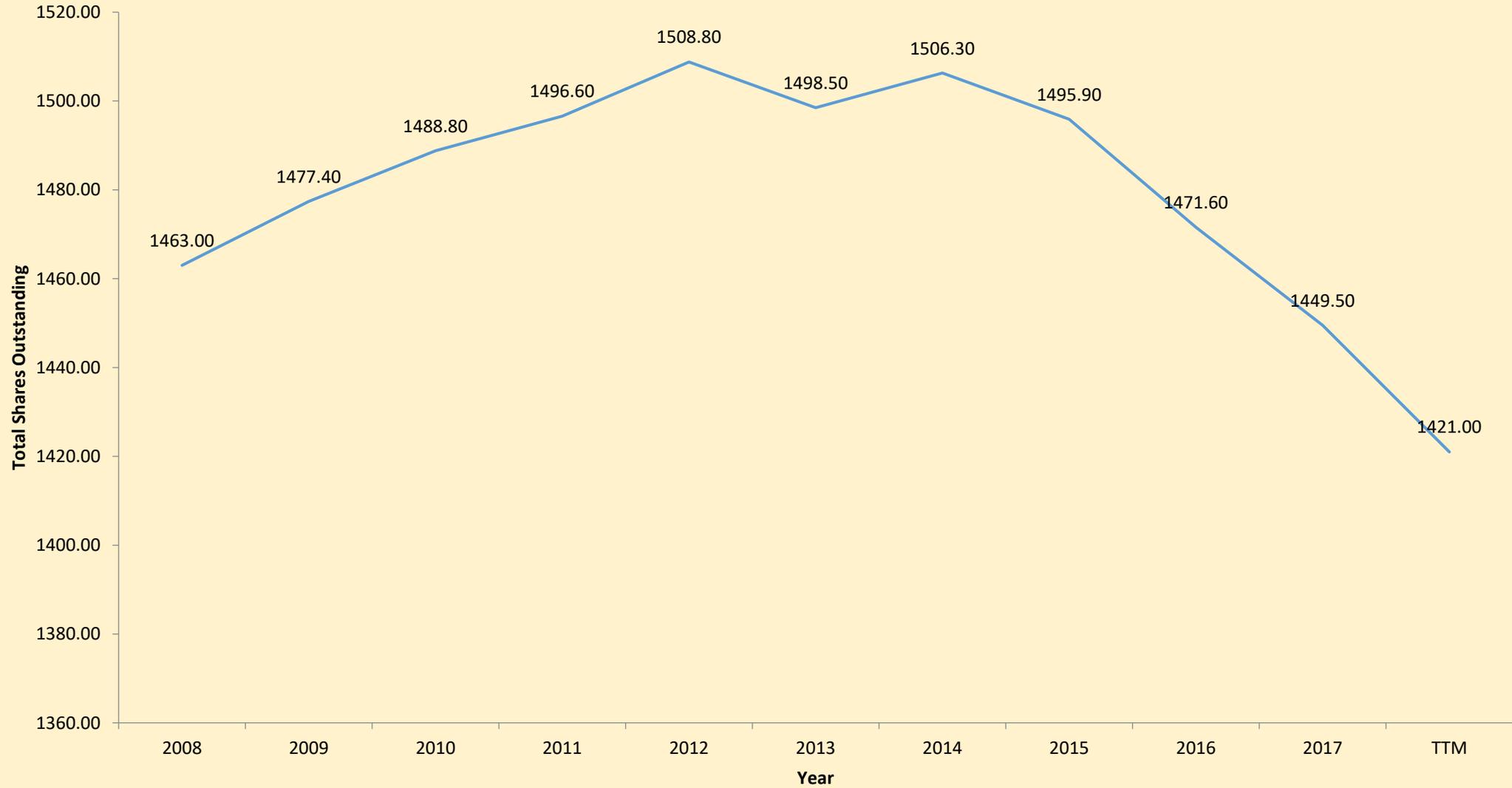
# Return on Equity



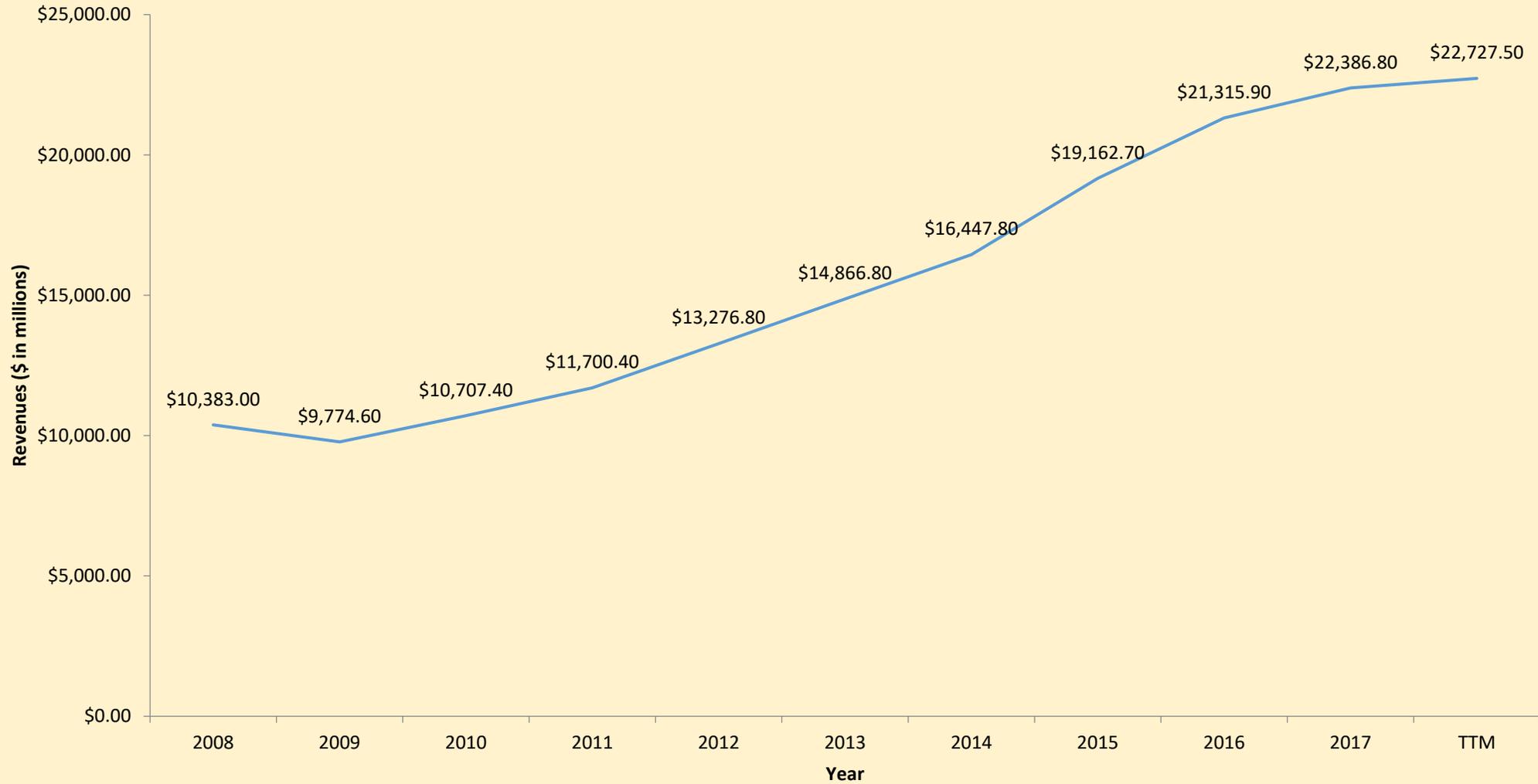
# Return on Capital



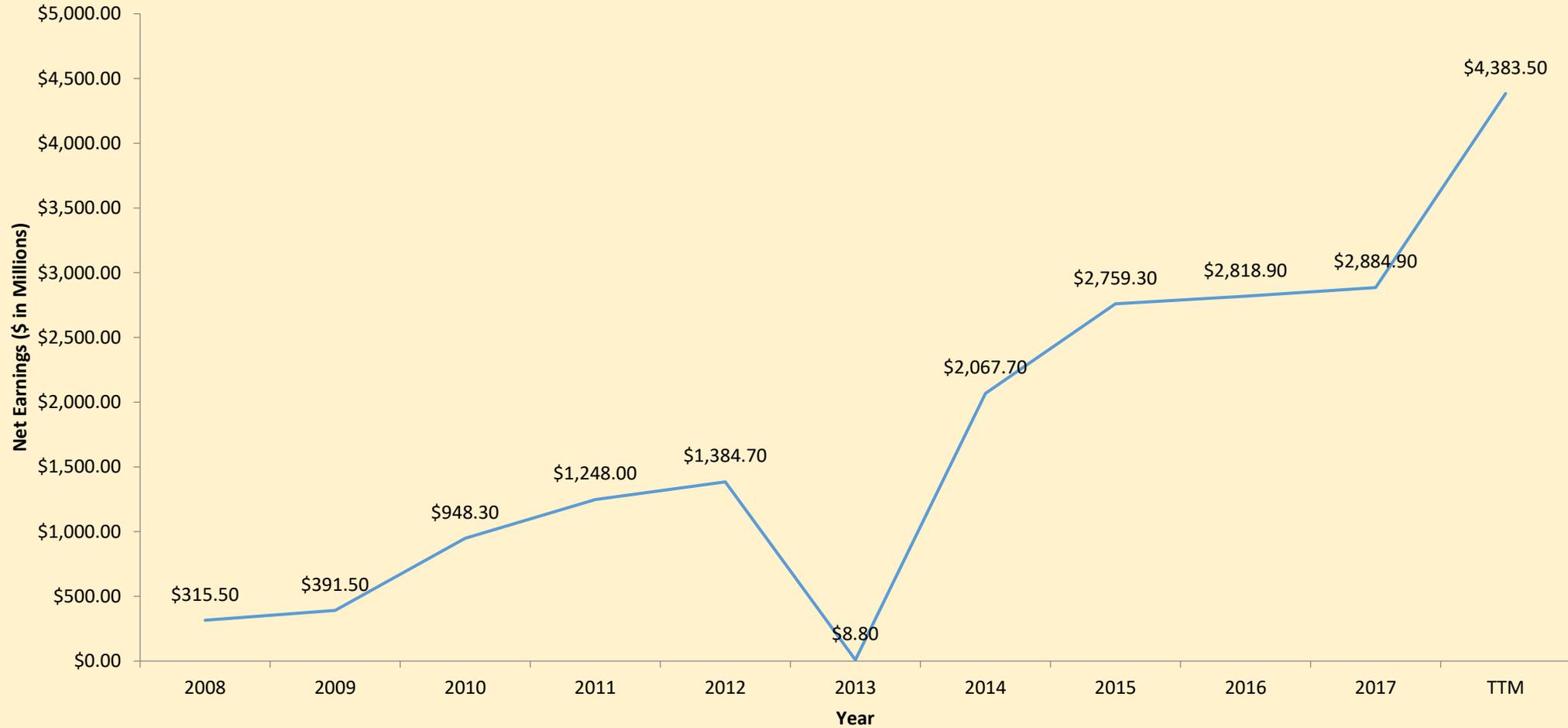
# Total Shares Outstanding



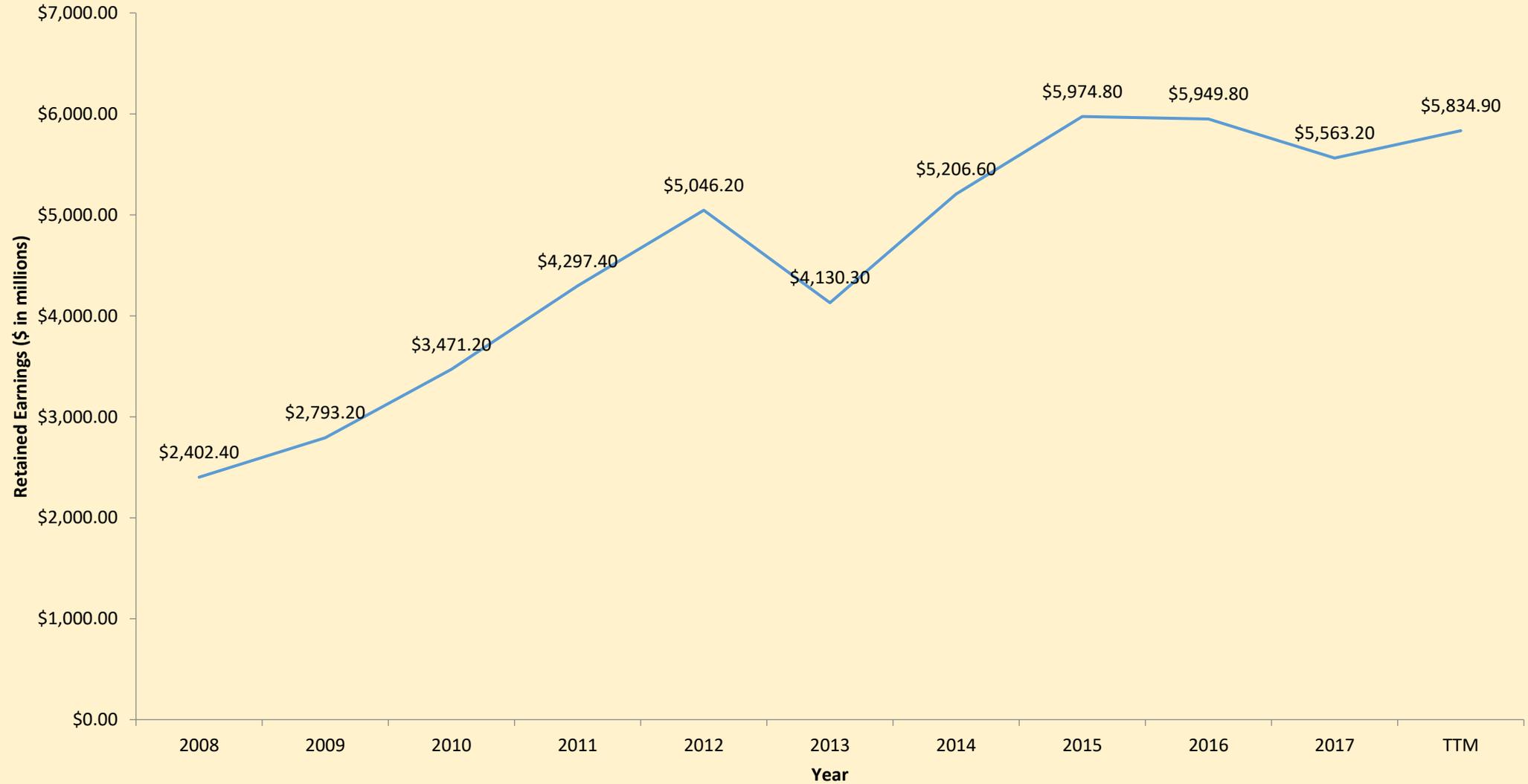
# Revenues (10 year)



# Net Earnings



# Retained Earnings





# Industry Breakdown

	SBUX	DNKN	QSR	MCD
<b>Market Cap</b>	78,791	5,822.9	14,995	137,212
<b>Revenue</b>	\$22,387	\$860.50	\$4,576	\$22,820
<b>P/E</b>	27.66	16.92	23.72	26.98
<b>P/S</b>	3.56	6.91	6.25	6.15
<b>P/B</b>	14.46	685.85	6.74	-
<b>EV/EBIT</b>	17.97	17.76	17.34	17.30



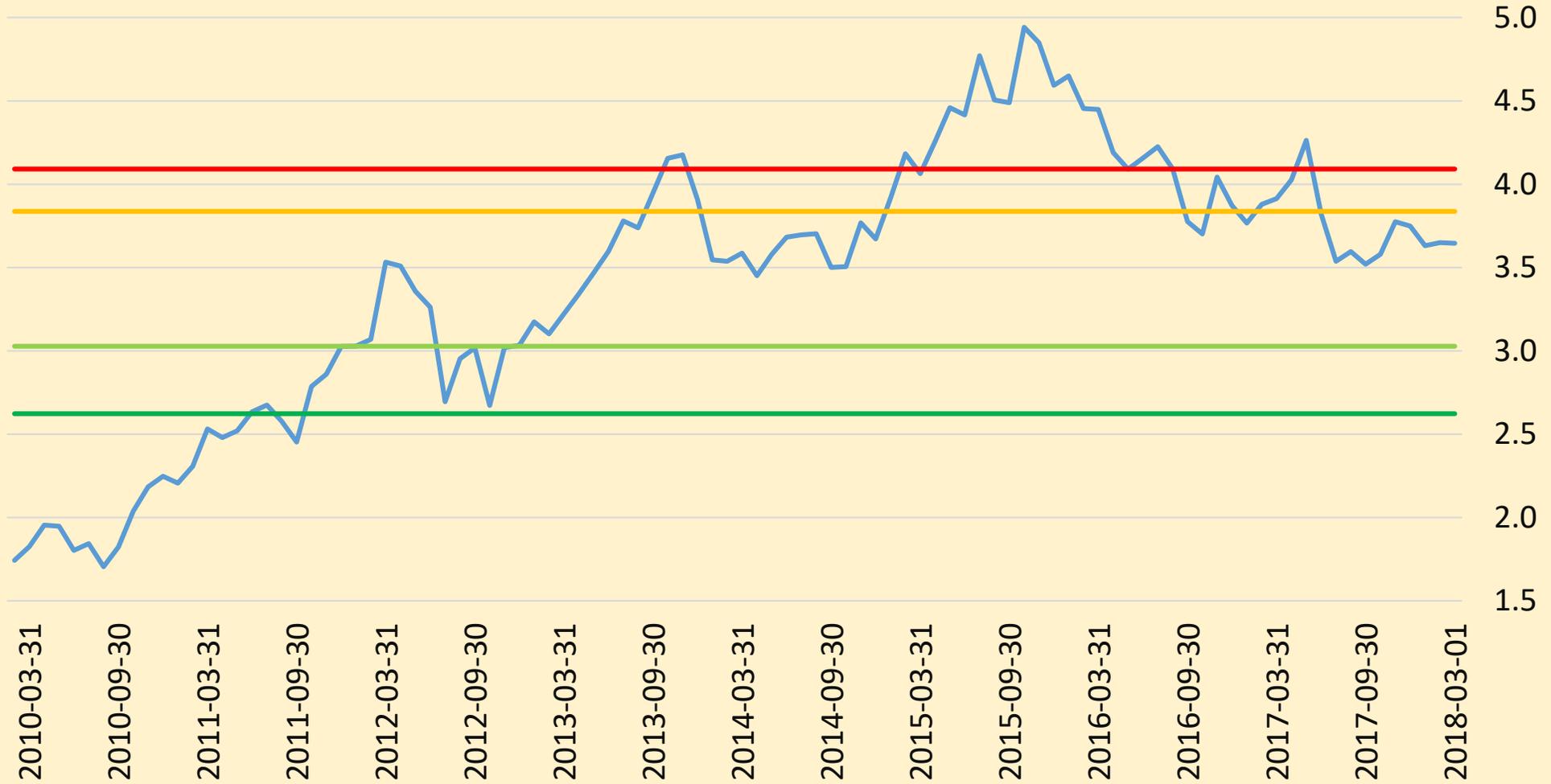
# Industry Breakdown

	SBUX	DNKN	QSR	MCD
ROA	20.12%	9.80%	3.22%	16.02%
ROE	50.90%	-	31.87%	-
Gross Margin	59.63%	84.04%	49.13%	46.54%
Operating Margin	18.47%	51.95%	37.93%	41.86%
Net Margin	12.89%	40.78%	14.18%	22.75%
ROA	20.12%	9.80%	3.22%	16.02%



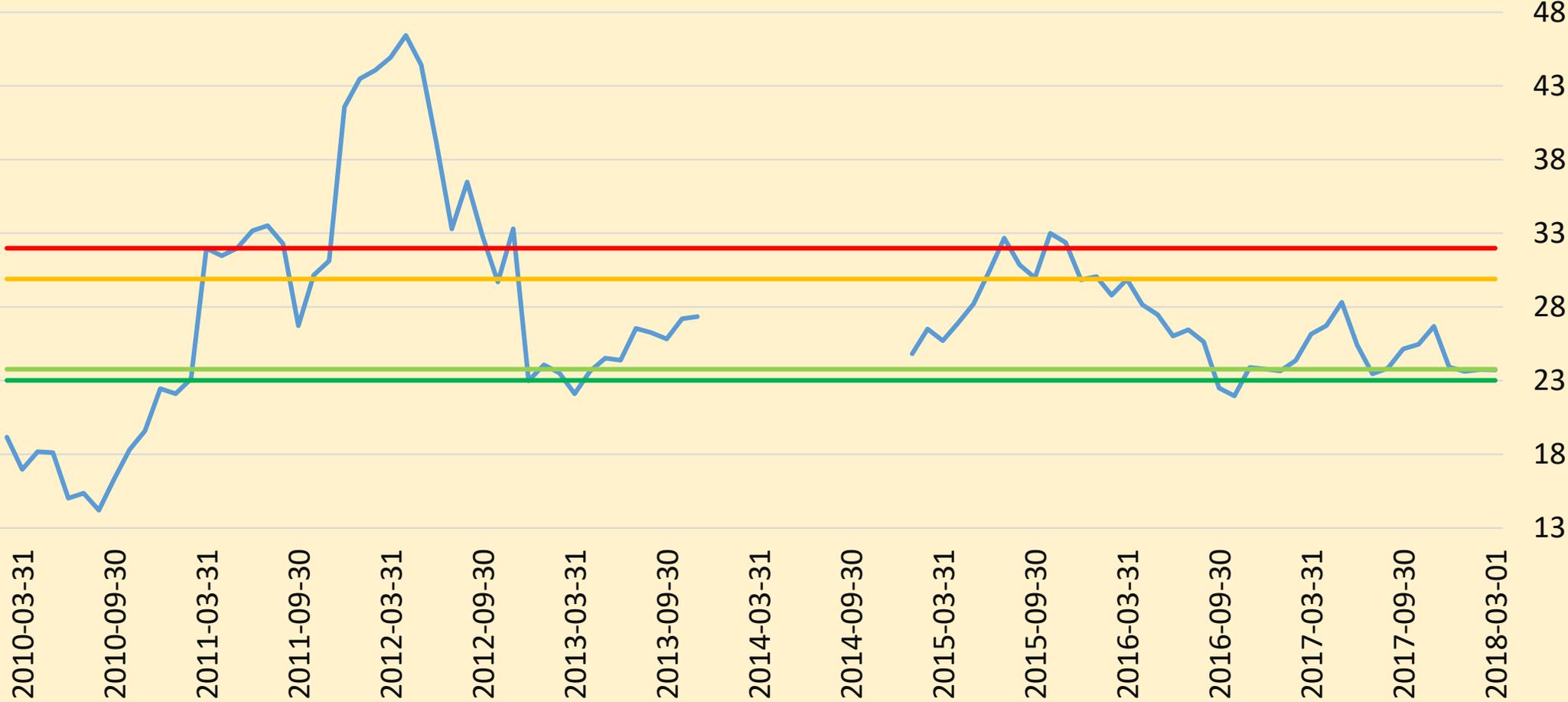
# Valuebands

# Price/Sales



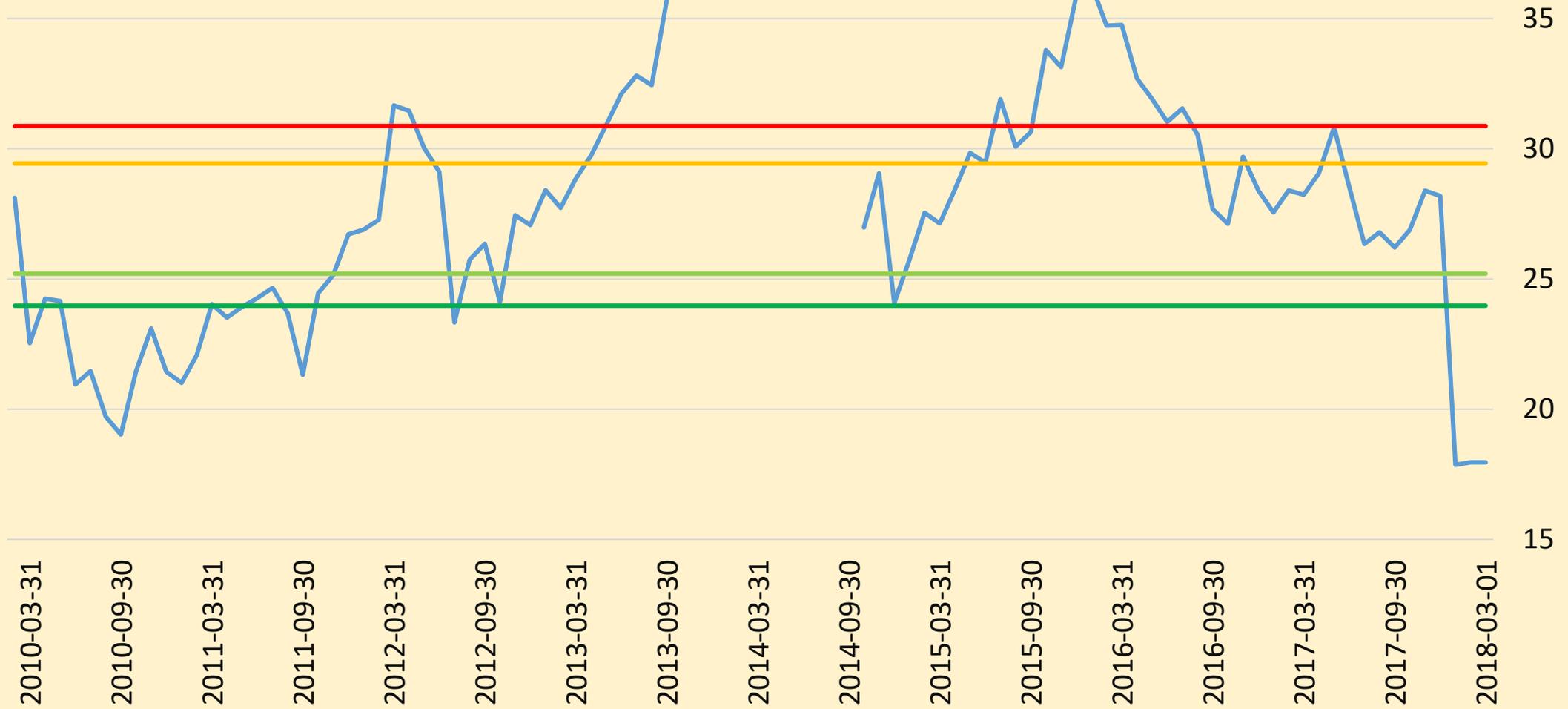


# Price/Owner's Earnings

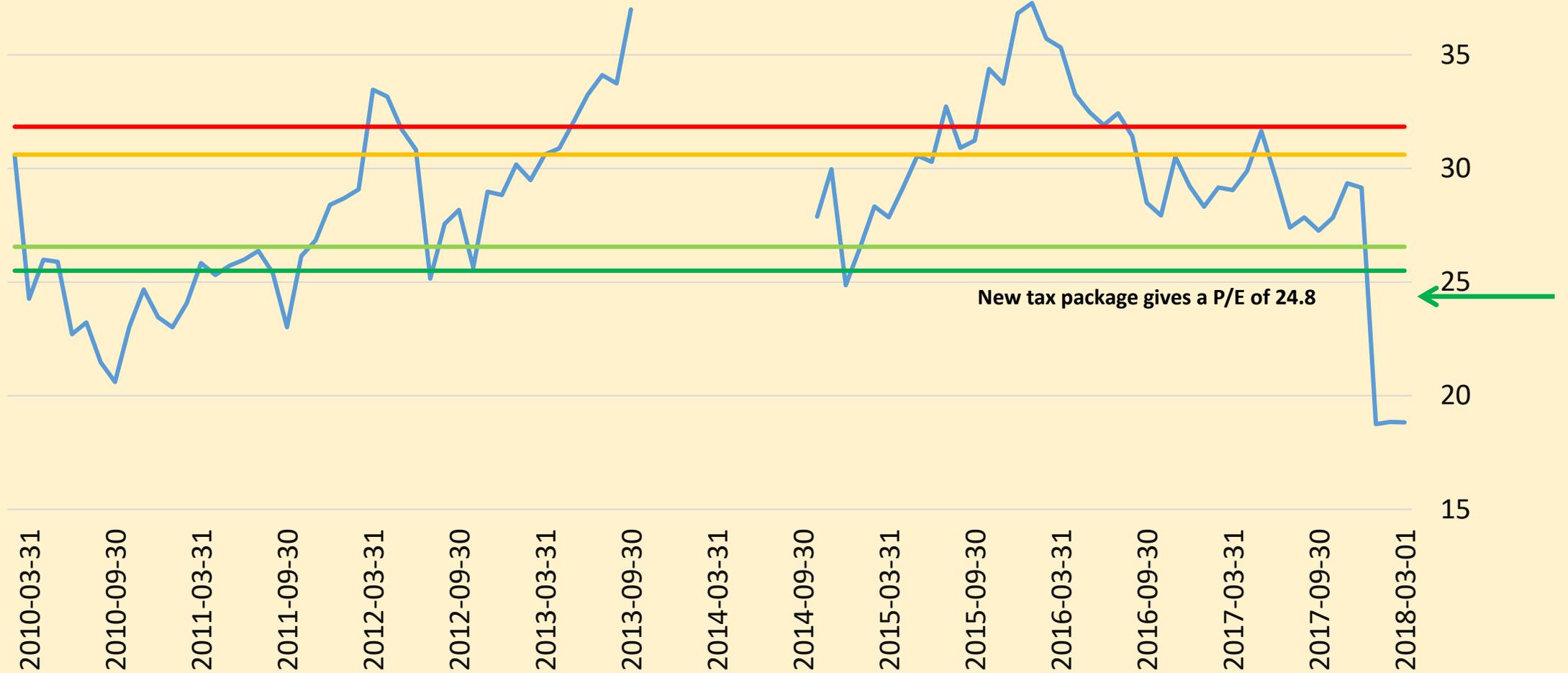




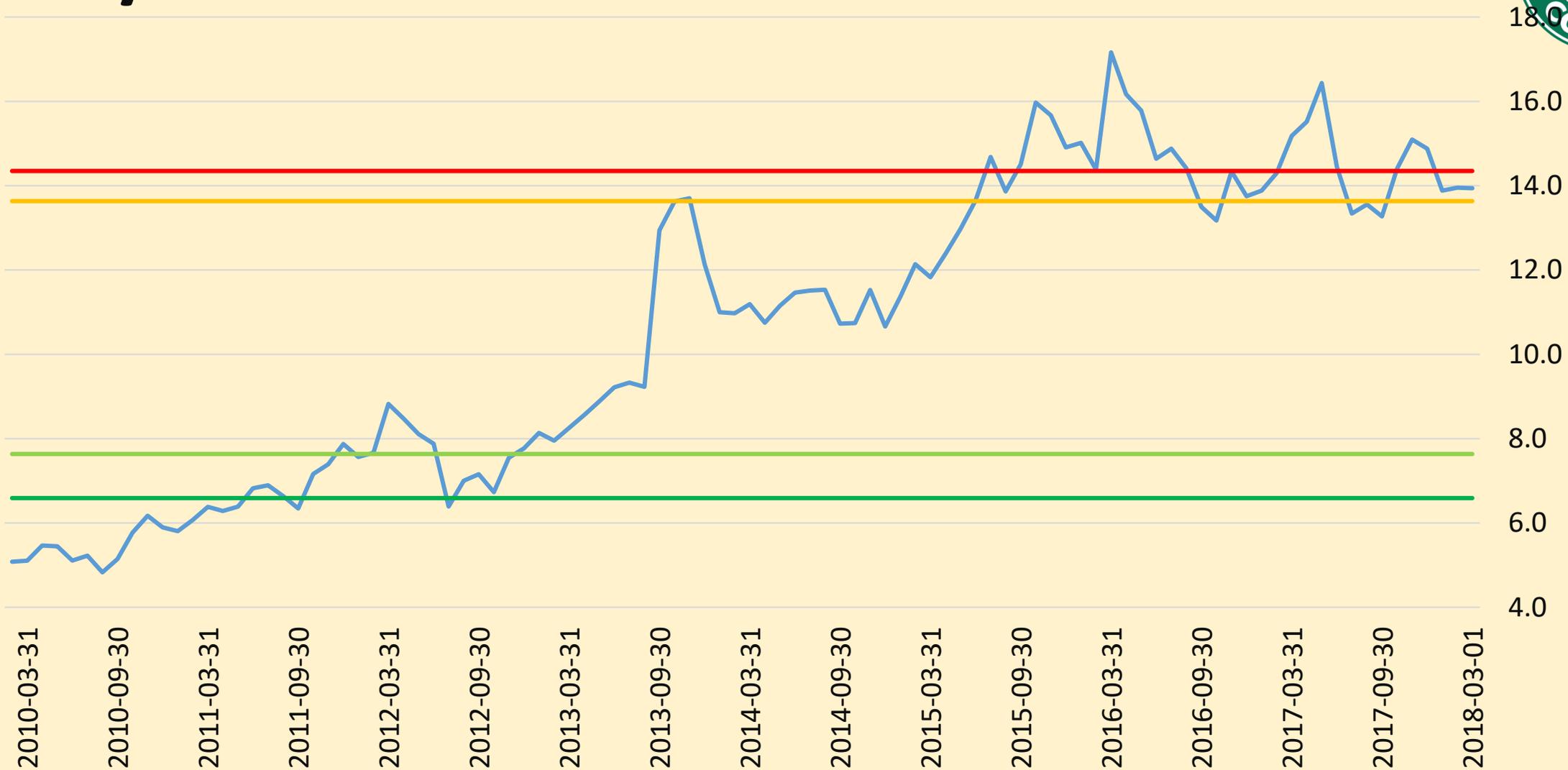
# Price/Earnings less Cash



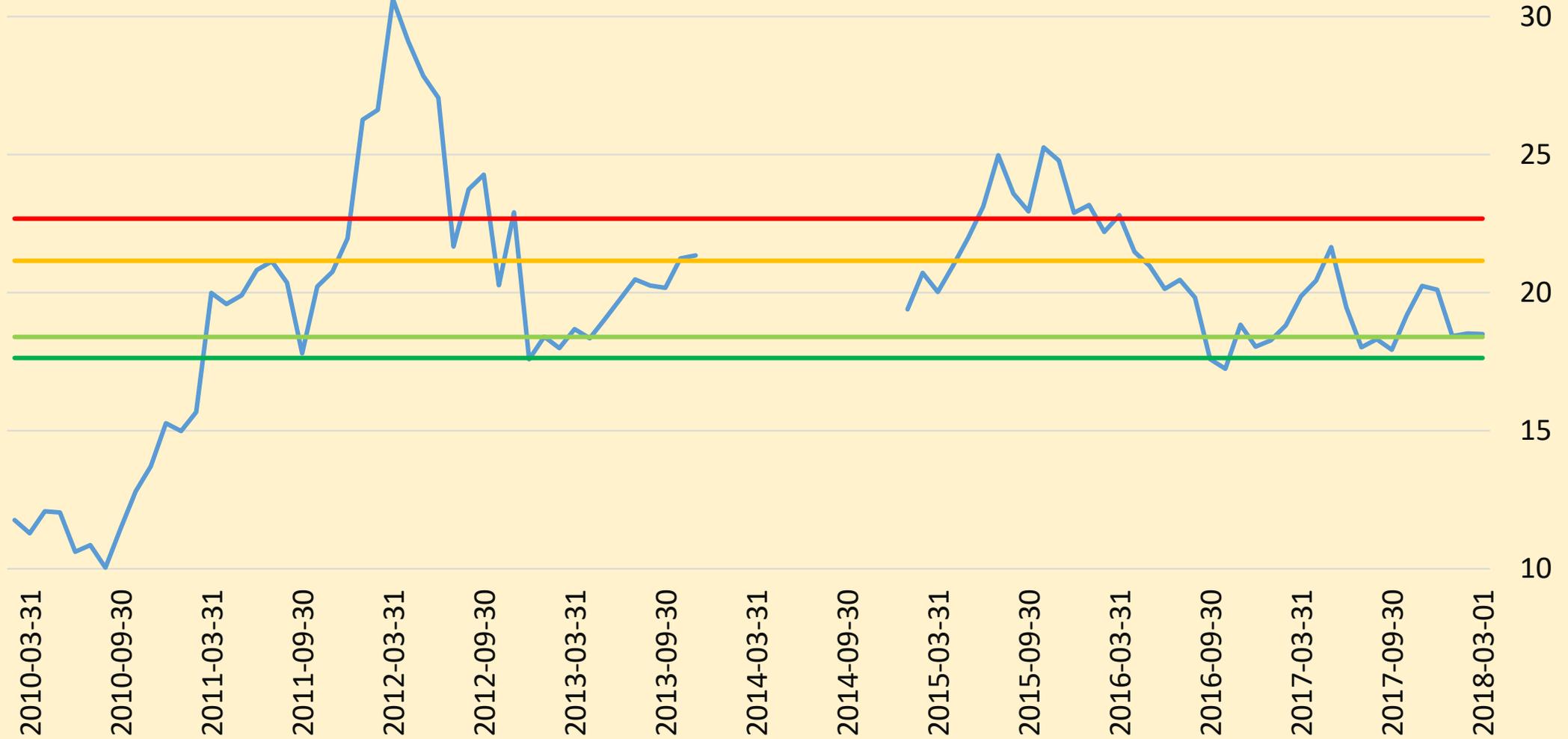
# Price/Earnings



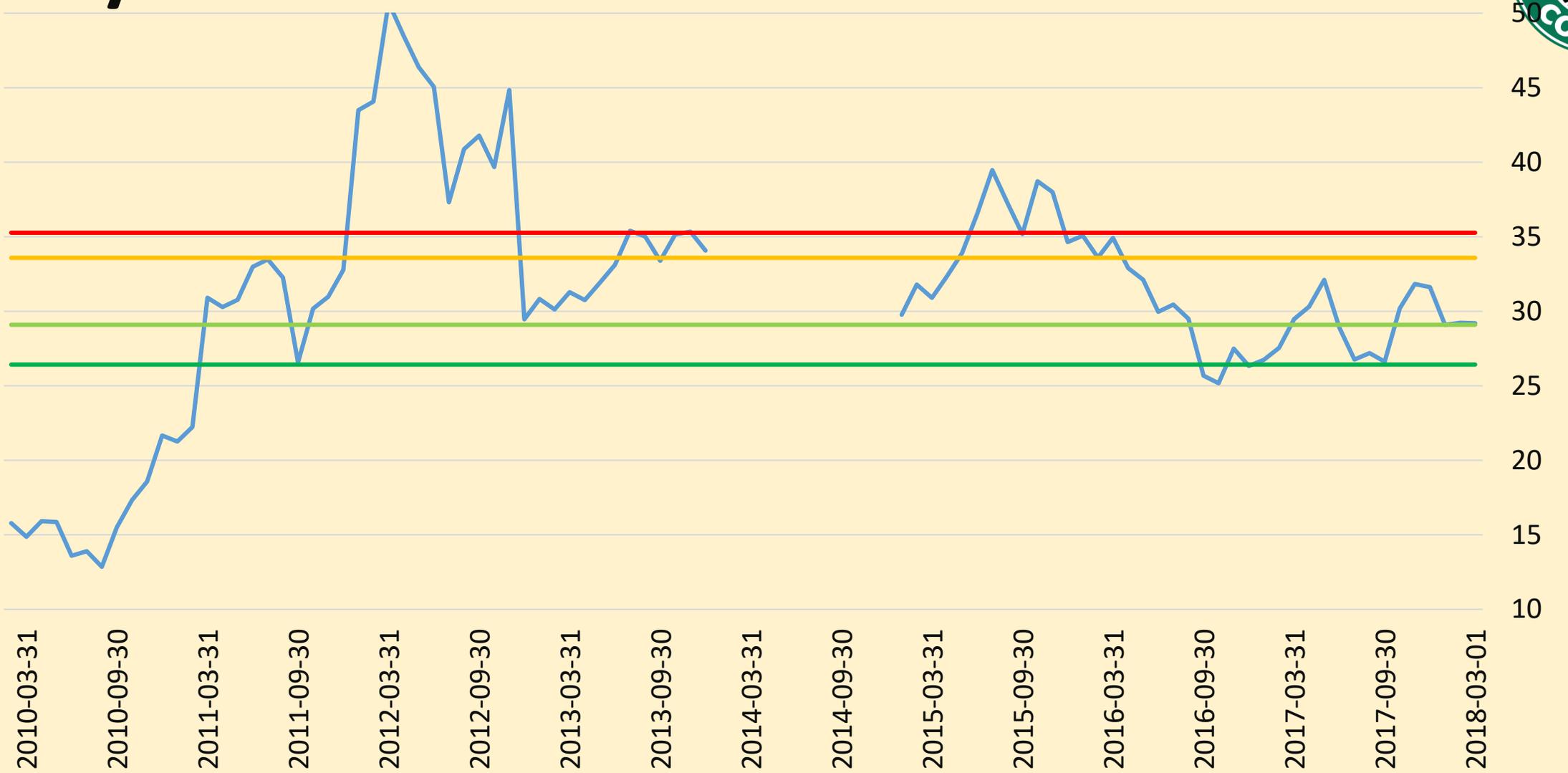
# Price/Book



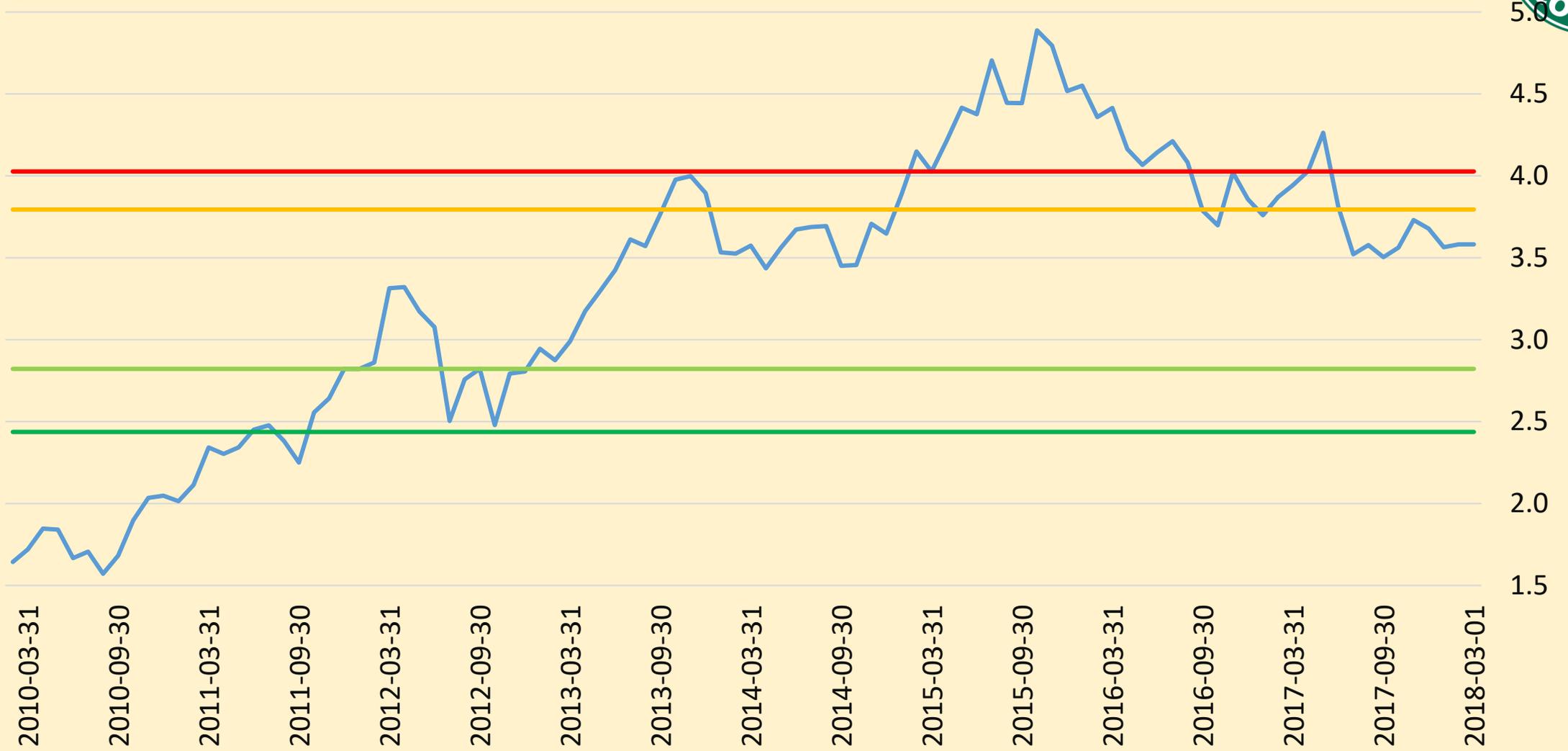
# Price/Cashflow



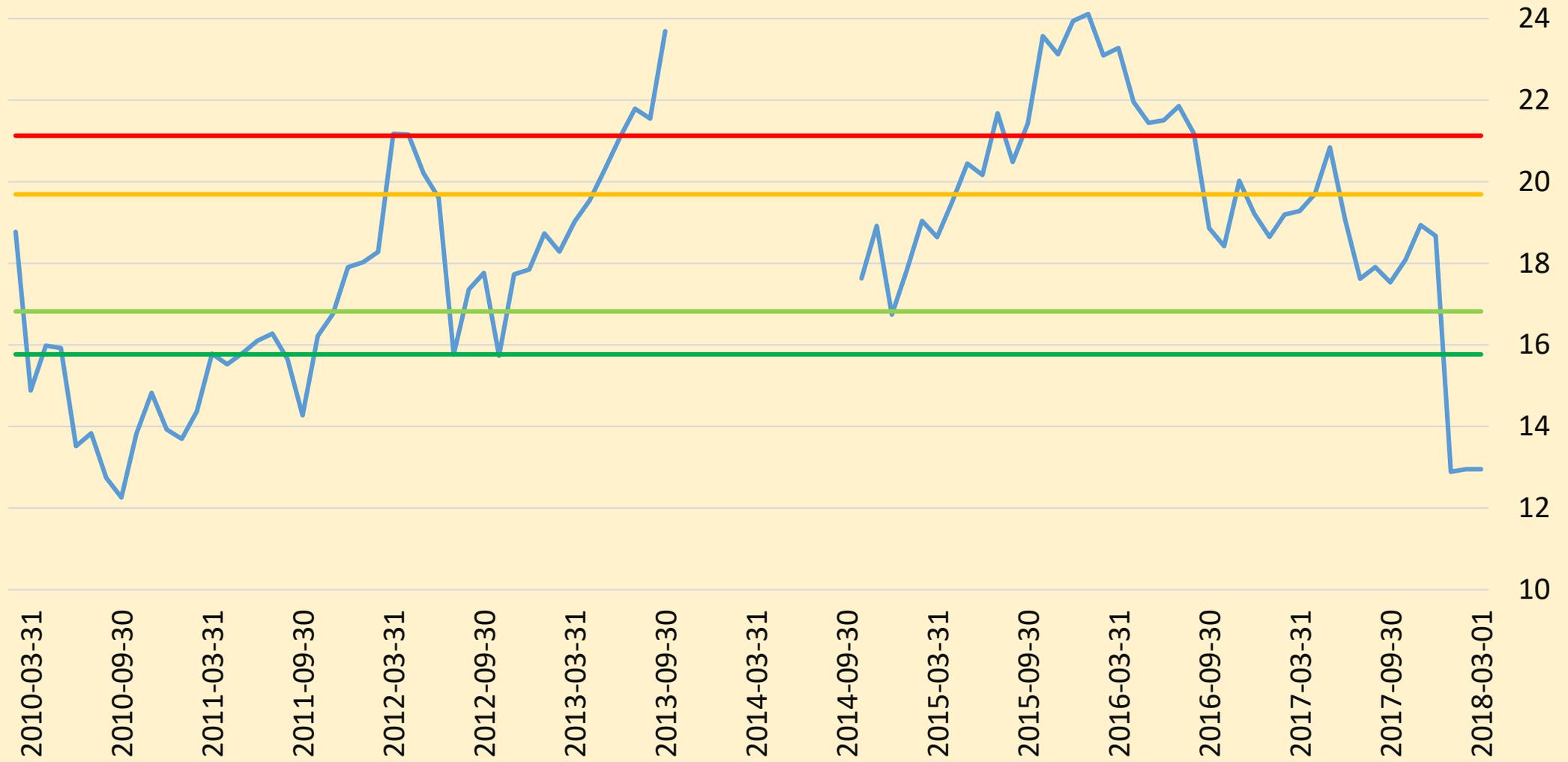
# Price/Free Cashflow



# EV/Revenue



# EV/EBIT





# Conscious Investor (10 year)

	9/08	9/09	9/10	9/11	9/12	9/13	9/14	9/15	9/16	9/17	EPSttm	Years
EPS (\$)	0.215	0.260	0.620	0.810	0.895	0.005	1.355	1.820	1.900	1.970	\$2.260	10
SPS (\$)	7.058	5.506	7.234	7.841	8.875	9.886	10.973	12.903	14.534	15.504		10

HGROWTH	STAEGR®
25.31%	27.60%
11.53%	92.09%



# Conscious Investor (10 year)

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD®
<b>Default</b>	56.17	\$2.260	27.94	25.31%	43.4%	32.32%
<b>Safety</b>	56.17	\$2.260	20.05	7.32%	36.2%	1.71%

Cut P/E by 28%

Cut growth by 71%

Cut payout by 17%



# Conscious Investor (6 year)

	9/08	9/09	9/10	9/11	9/12	9/13	9/14	9/15	9/16	9/17	EPSttm	Years
EPS (\$)	0.215	0.260	0.620	0.810	0.895	0.005	1.355	1.820	1.900	1.970	\$2.260	6
SPS (\$)	7.058	5.506	7.234	7.841	8.875	9.886	10.973	12.903	14.534	15.504		6

**HGROWTH**

**STAEGR<sup>®</sup>**

77.16%

8.44%

12.48%

98.61%



# Conscious Investor (6 year)

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD <sup>®</sup>
Default	56.17	\$2.260	27.94	77.16%	43.4%	87.07%
Safety	56.17	\$2.260	20.05	9.64%	36.2%	3.91%

Cut P/E by 28%

Cut growth by 88%

Cut payout by 17%



# Conscious Investor (4 year)

	9/08	9/09	9/10	9/11	9/12	9/13	9/14	9/15	9/16	9/17	EPSttm	Years
<b>EPS (\$)</b>	0.215	0.260	0.620	0.810	0.895	0.005	1.355	1.820	1.900	1.970	<b>\$2.260</b>	4
<b>SPS (\$)</b>	7.058	5.506	7.234	7.841	8.875	9.886	10.973	12.903	14.534	15.504		4

<b>HGROWTH</b>	<b>STAEGR®</b>
12.36%	94.15%
12.25%	98.26%



# Conscious Investor (4 year)

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD <sup>®</sup>
Default	56.17	\$2.260	27.94	12.36%	43.4%	18.64%
Safety	56.17	\$2.260	20.05	10.13%	36.2%	4.37%

Cut P/E by 28%

Cut growth by 18%

Cut payout by 17%



# Conscious Investor (4 year Kill it)

	Price	EP Sttm	P/E Ratio	HGrowth	Payout	STRETD <sup>®</sup>
<b>Default</b>	56.17	\$2.260	27.94	25.31%	43.4%	32.32%
<b>Safety</b>	56.17	\$2.260	20.05	7.32%	36.2%	1.71%
 <b>Saved 2018-03-03</b>	56.17	\$2.260	19.25	7.00%	34.0%	0.00%

**Cut P/E by 31%**

**Cut growth by 72%**

**Cut payout by 22%**



# Discounted Cash Flow Model



# Guru Default

Earnings Per Share ? : USD

Growth Rate In the Next ? :  Years:  %

Terminal Growth Rate ? :  %

Years of Terminal Growth ? :

Discount Rate ? :  %

DCF Reverse DCF <sup>NEW</sup>

**Fair Value ? : 102.98**

Tangible Book Value ? : USD

Add to Fair Value

Growth Value ? : 49.52

Terminal Value ? : 53.47

Stock Price: USD

Margin Of Safety: **45%**

EPS without NRI Growth (%)	19.10	77.00	55.40
----------------------------	-------	-------	-------



# Guru - Adjusted

Earnings Per Share ? : \$ 2.26

Growth Rate In the Next ? : 10 Years: 19.1 %

Terminal Growth Rate ? : 4 %

Years of Terminal Growth ? : 10

Discount Rate ? : 9.5 %

DCF Reverse DCF NEW

**Fair Value ? : 76.81**

Tangible Book Value ? : \$ 0.59  
 Add to Fair Value

Growth Value ? : 36.93

Terminal Value ? : 39.88

Stock Price: \$ 56.17

Margin Of Safety: **27%**

EPS without NRI Growth (%)	19.10	77.00	55.40
----------------------------	-------	-------	-------



# Guru - Valueline

Earnings Per Share ? : \$ 2.26

Growth Rate In the Next ? : 10 Years: 15 %

Terminal Growth Rate ? : 4 %

Years of Terminal Growth ? : 10

Discount Rate ? : 9.5 %

DCF Reverse DCF <sup>NEW</sup>

**Fair Value ? : 57.98**

Tangible Book Value ? : \$ 0.59  
 Add to Fair Value

Growth Value ? : 29.89

Terminal Value ? : 28.09

Stock Price: \$ 56.17

Margin Of Safety: **3%**

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '15-'17 to '21-'23
Sales	10.5%	12.5%	9.5%
"Cash Flow"	14.5%	17.5%	13.0%
Earnings	17.5%	19.5%	15.0%
Dividends	--	28.0%	16.5%
Book Value	10.5%	6.0%	16.0%



# Reverse DCF

Earnings Per Share ? : \$

Growth Rate In the Next ? :  Years

Terminal Growth Rate ? :  %

Years of Terminal Growth ? :

Discount Rate ? :  %

**Growth Rate ? : 14.54%**

Stock Price: \$

Revenue Growth Rate ? : 10.10%(10y) 12.80%(5y) 6.70%(1y)

EBITDA Growth Rate ? : 16.50%(10y) 39.10%(5y) 38.80%(1y)

EPS without NRI Growth Rate 19.10%(10y) 77.00%(5y) 55.40%(1y)



# Intraportfolio



# Return On Equity

Symbol	ROE %
SBUX	50.9%
UNP	50.86%
OMC	46.44%
MCK	45.32%
PEP	40.74%
CHD	37.42%
NKE	31.58%
IBM	31.19%
TSCO	30.16%

Symbol	ROE %
UHAL	27.50%
DG	22.38%
PII	19.67%
ORCL	18.72%
MSFT	15.29%
BRK.B	14.67%
NSRGY	11.54%
AIG	-8.41%
QCOM	-14.03

# Return On Invested Capital



Symbol	ROIC %
SBUX	41.37%
NKE	38.26%
MSFT	36.89%
UNP	32.54%
MCK	32.13%
QCOM	31.92%
UHAL	27.87%
OMC	25.03%
ORCL	23.93%

Symbol	ROIC %
TSCO	23.77%
CHD	22.55%
PII	20.78%
PEP	16.02%
DG	15.42%
NSRGY	12.81%
BRK.B	10.89%
IBM	9.38%
AIG	-6.67%

# Price / Free Cashflow



Symbol	P/FCF
UHAL	0.00
AIG	0.00
OMC	9.29
IBM	11.13
MCK	14.39
BRK.B	14.57
ORCL	16.88
PII	18.11
CHD	19.70

Symbol	P/FCF
TSCO	21.13
MSFT	21.75
PEP	22.09
QCOM	23.63
UNP	25.78
NSRGY	26.23
DG	26.76
SBUX	28.63
NKE	41.44

# Price / Earnings



Symbol	P/E
AIG	0.00
QCOM	0.00
MCK	6.66
UHAL	8.36
UNP	9.60
BRK.B	11.04
OMC	16.10
CHD	16.91
SBUX	18.52

Symbol	P/E
TSCO	19.36
DG	21.14
ORCL	21.14
IBM	25.06
NKE	28.73
PEP	32.19
NSRGY	32.22
PII	41.87
MSFT	63.17

# Price / Sales



Symbol	P/S
MCK	0.15
AIG	1.08
DG	1.11
TSCO	1.15
OMC	1.16
PII	1.32
IBM	1.81
UHAL	1.85
BRK.B	2.05

Symbol	P/S
PEP	2.47
NSRGY	2.56
NKE	3.20
CHD	3.33
SBUX	3.59
QCOM	4.31
UNP	4.84
ORCL	5.46
MSFT	7.32

# Enterprise Value / Earnings Before Interest & Tax



Symbol	EV/EBIT
MCK	5.84
UHAL	8.49
OMC	9.04
TSCO	12.14
SBUX	12.74
UNP	13.86
DG	13.95
ORCL	14.16
IBM	14.67

Symbol	EV/EBIT
PEP	16.09
BRK.B	16.65
CHD	18.86
MSFT	21.18
PII	22.35
NKE	23.99
NSRGY	24.01
AIG	26.74
QCOM	31.00



# Conclusion

- Economies of Scale- Largest Coffee Company in the World
- Brand Name is a Huge Asset
- Great Opportunity – Great Business at a fair cost
- Technology drives more sales





# Questions ?





# Appendix



# Where's the beans?

- Starbucks sources Arabica coffee from three growing regions: Latin America, Africa, and Asia-Pacific



# Legal problems

- Nothing too big – see next slide
- Employee blood scare
- Hot tea was too hot
  - Burns lady



# What Happened in 2013

- Starbucks decided on an early termination of a bagged coffee grocery deal between Starbucks and Kraft Foods.
- Cost Starbucks \$2.7 billion
- Makes everything look bad



# Licensed Stores

- Revenues from our licensed stores accounted for 11% of total net revenues in fiscal 2017. Licensed stores generally have a lower gross margin and a higher operating margin than company-operated stores. Starbucks receives a reduced share of the total store revenues.
- we leverage the expertise of our local partners and share our operating and store development experience. Licensees provide improved, and at times the only, access to desirable retail space. Most licensees are prominent retailers with in-depth market knowledge and access. As part of these arrangements, we sell coffee, tea, food and related products to licensees for resale to customers and receive royalties and license fees from the licensees



# Starbucks vs. Mom & Pop

- Giftcards
- Rewards programs
- App
- Brand Name



# Bad Acquisitions?

- Starbucks buys business to incorporate their menu
- Less concerned with that business' store success



# Marketing?

- Rumors that SBUX intentionally misspells names
- Helps get their name out on social media
- Customers go back until they get it right



# New store opportunities

- McDonalds has over 37,000 stores worldwide
- Starbucks footprint is much smaller
- Our belief is that for every McDonalds store, there can be 3 Starbucks
- Agility and simplicity allows this